

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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29847

URGENT ACTION

June 25, 1971

MEMORANDUM FOR: DR. KISSINGER
FROM: ERNEST JOHNSTON *ES.*
SUBJECT: German Offset Negotiations

State has come in today for a decision on offset negotiations prior to meetings on June 28 and 29 in Bonn. *Yes, per Ernest J.*

State anticipates that the Germans might be persuaded to improve their annual offset offer by an interest free loan of \$200 to \$400 million and a \$100 million proposal to rehabilitate barracks in Germany. *Do NOT Fwd*

State's memorandum states that unless otherwise instructed the Delegation Chief, Nat Samuels, would accept such a German offer on the spot, or failing that, would accept ad referendum whatever the Germans can be persuaded to put forward in the Monday and Tuesday meetings.

The most recent Embassy cable from Germany at Tab III, received after State's memo, indicates that the Germans are not prepared to go much further than their current offer. Specifically the FRG Cabinet decision does not allow additional barracks rehabilitation or interest free loans.

The agencies are severely split. Treasury wants to insist on support payments of \$300 million which is highly unlikely and also above the fall back position which the President decided in February 1971. Defense believes that we should push the Germans in Monday and Tuesday's meeting but not decide our response until later.

State's proposal, without the ad referendum element, is within the guidelines of the initial negotiating position approved by the President but its short fuse and its vague ad referendum feature argue against acceptance now, particularly in light of the Mansfield episode which occurred after the Presidential guidelines were issued.

State argues that we should wrap the negotiations up now since (a) the Germans are unlikely to go much further than whatever they agree to on Monday and Tuesday and (b) further delay would damage our relations

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with Germany. The real but unspoken problem, however, is that a delayed decision would allow Laird, and especially Connally and Peterson, to come in with a strong negative recommendation on whatever State brings back. Thus, there is no doubt that a delayed decision is likely to make the issue more public and would make it more difficult to accept any probable German position. Samuels' testimony before the Joint Economic Committee on Thursday has already brought out too many details and has probably upset the Germans.

The memorandum for the President at Tab I proposes that we not accept the State proposal, in view of the shortness of time, the wide interagency disagreement and the uncertainty of the German position. I have not mentioned the State memorandum to Peterson in case you should wish to recommend that the President accept the State proposal. Peterson would undoubtedly prefer to delay or, even more likely, to accept the Treasury position.

The President's decision hinges partially on what he told Chancellor Brandt. We have had no direct report on this. However, Brandt did tell the Secretary of State that the President had recommended that the negotiations be left to the experts, which strongly implies a soft line.

RECOMMENDATIONS:

1. That you sign the memorandum at Tab I to the President recommending that we press the Germans strongly but postpone our offset decision until after the June 28 meetings.
2. That you inform the State Department before Monday of the President's decision by the memorandum at Tab II.

Concurrence: H Sonnenfeldt *EA for AD.*

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